DATE ISSUED: June 10, 2004   REPORT NO. 04-131

ATTENTION: Honorable Mayor and City Council
                          Docket of June 14, 2004

SUBJECT: San Diego Data Processing Corporation Governance

REFERENCE: Manager's Report No. 04-108, dated May 14, 2004
                          Manager's Report No. 04-090, dated April 29, 2004

SUMMARY

Issue – Should the City Council adopt a resolution that:

1. Delegates the voting proxy of the City, as the sole member of the San Diego Data Processing Corporation (SDDPC), to the City Manager, without limitation, over matters related to SDDPC;

2. Allows officers and employees of the City to be eligible to serve as voting members of the SDDPC Board of Directors (Board);

3. Directs the City Manager to change the Board's composition to include three City staff as part of the seven member Board: the City's Chief Information Officer (CIO) and two (2) additional staff at the Deputy City Manager or Department Director level;

4. Directs the Board to confirm the CIO as Chair of the Board; and

5. Directs SDDPC, its Board, officers and employees to provide their full and timely cooperation in all matters related to the City's effort to develop an implementation plan for an overall information technology (IT) sourcing strategy in the City's best interest.

     <u>Manager's Recommendation</u> – Adopt the resolution.

     <u>Other Recommendations</u> – None.

     <u>Fiscal Impact</u> – None with this action.

<u>BACKGROUND</u>

City Manager Report 04-108, dated May 14, 2004, recommended that the City Council
(1) change the governance of San Diego Data Processing Corporation (SDDPC) and restructure
its Board of Directors, and (2) reallocate funds allocated for technology services to engage
consultants and specialized legal counsel to assist in evaluating options and developing a strategy
for sourcing the City's information technology (IT) services.

The Rules Committee approved forwarding to the City Council the recommended changes in
SDDPC's governance on May 19, 2004. The Committee also directed the City Manager to form
a joint City/SDDPC Project Team to review all strategic options for sourcing City IT services
and report back to the Committee in 180 days. This report focuses on the issue of governance.

<u>DISCUSSION</u>

On January 16, 2004, the Mayor issued a memorandum that requested the City Manager evaluate
whether or not to abolish SDDPC and merge its responsibilities with the City's Information
Technology and Communications (IT&C) Department. In addition, four specific questions were
to be addressed:

1. What organizational structure will save the taxpayers the most money?
2. What organizational structure will provide the best information technology services?
3. What organizational structure will best prevent future abuses?
4. What are the existing legal obligations and rights of both the City and SDDPC?

City Manager Report 04-090, issued April 29, 2004, identified significant concerns with
SDDPC, including oversight and accountability of the organization, competition and cost
effectiveness, and customer service. The report discussed a number of studies and change efforts
conducted over the years, noting that prior efforts to address these long-standing issues have not
been successful.

Recently, SDDPC's current Board of Directors took steps to correct issues related to control of
travel and entertainment expenditures. However, fundamental change is required to resolve the
underlying structural problems related to oversight and accountability of the delivery of IT
services to the City. Based on the history of SDDPC, issues that have developed over time, best-
practice research, and discussions with key stakeholders, the report reached the following
conclusions:

- City responsibility and accountability for planning, implementing, and monitoring IT service delivery to the City's business operations are diffused and confusing.

- With the significant growth in the City's use of technology, the IT service delivery model established in 1979 has, over the years, resulted in the City's loss of oversight and accountability for the City's technology services delivered by SDDPC.

- SDDPC oversight and accountability issues have been City concerns since the late 1980s and efforts at improvement have not been successful.

- The service delivery model, coupled with SDDPC's broad mission to serve as a world-class provider of IT services for San Diego as well as the region, conflicts with what should be SDDPC's primary mission of serving the City's needs.

Currently, the City's CIO is responsible for IT in the City, yet has no meaningful oversight over SDDPC, which reports to a Board of Directors appointed by the Mayor and confirmed by the City Council. As previously recommended in City Manager's Report 04-108, in order to address the issue of oversight and accountability, and to improve alignment with the City, the City Manager recommends changing SDDPC's governance as follows:

- *Delegate Council's voting proxy and authority to appoint SDDPC Board members to the City Manager*. SDDPC's reporting relationship through its Board to the City Council has resulted in confusion regarding accountability and responsibility for IT service delivery to the City. Delegating the Council's voting proxy and authority to appoint SDDPC Board members resolves this issue and confirms the City Manager's responsibility for business operations of the City – including IT operations.

- *Include City officers and employees on SDDPC's Board*. Generally, boards and commissions created by City Council are focused on services provided to the community or are chosen to represent the community on areas of interest to the Council. Board/commission members consist of representatives from that community of interest. SDDPC is unique in that the "community" it serves is the City organization, yet SDDPC's Board includes no City staff as voting members. This has resulted in misalignment between SDDPC and City goals. Therefore, it is recommended that City staff be included on the SDDPC Board.

  SDDPC is authorized to have seven members on its Board. It is recommended that the Board composition be changed to have three City staff as voting members on the seven member Board, including the CIO and two additional members at the Deputy City Manager or Department Director level. The requirement for community representation with a finance or technology background is still relevant particularly as discussions continue over IT sourcing strategy for the City. These proposed changes will maintain a seven member Board.

- *Direct the Board to confirm the CIO as Board Chairperson*. Consistent with the objective of achieving a single point of accountability for IT service delivery within the City and given the current organizational structure, the CIO should serve as Board Chairperson. If City employees were carrying out IT service delivery, the CIO would be in charge of that component; if an external service provider was providing IT service components, the contractual agreement would be managed by the CIO. With the CIO as

Chairperson together with two other City staff members and community representation, oversight and alignment would be significantly improved.

ALTERNATIVE

Do not adopt the resolution.

Respectfully submitted,

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Rey Arellano
Deputy City Manager & Chief Information Officer

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Approved: P. Lamont Ewell
            City Manager